



Lamoine Board of Selectmen Minutes of November 26, 2007

Chair Jo Cooper called the meeting to order at 7:02 PM

Present were: Selectmen Richard Fennelly Jr., Brett Jones, S. Josephine Cooper, Chris Tadema-Wielandt, Cynthia Donaldson (arrived 7:20 PM); Administrative Assistant Stu Marckoon, James Wadman (Auditor), Budget Committee members Reginald McDevitt, Hubene Brodie, Robin Veysey, Linda Feury, Henry Ashmore and Cable TV technician Merle Bragdon.

Presentation of Annual Audit – Jo said the Selectmen are trying to do things correctly, and meeting with the auditor is one of the practices they should follow. She said from her layman's point of view the audit looked excellent.

Auditor James Wadman said he made a few notes on the report. He said this is the first time his firm has met with the Board of Selectmen, and it's a good time to do a little education. Mr. Wadman said pages 1-18 of the audit are the required format for all municipal governments. Chris asked if it's required by statute. Mr. Wadman said the Government Accounting Standards Board (GASB) sets out the format. He said there was a change several years ago in the reporting format for governments. He said the big issue at that time was infrastructure value (roads, bridges, buildings). He said arriving at those values originally was an estimate.

Jo said the meeting will be helpful because the onus is on the Selectmen as they have oversight of the town's books. She said she appreciated the guidance from the auditors. Mr. Wadman said fraud cases around the nation have resulted in a lot of changes in the way things are done. Richard asked to what extent the Sarbanes/Oxley Act applies. Mr. Wadman said that act applies mostly to publicly traded companies, but much of it filters down to government accounting. He said completely segregating duties is not practical in a small operation such as Lamoine's. He said it falls upon the Board of Selectmen to be involved in the oversight of the operations. Richard asked how the new fraud standards apply to municipal officers. Mr. Wadman said it's the same as if a publicly traded corporation were involved in fraud.

Mr. Wadman said he has to customize his engagement letters for each community. He said Lamoine has a clean auditor's opinion; that everything is on the up and up. He went through pages 2-4 of the audit. He said the narrative is similar to that in a bank's annual report. He reviewed the fund highlights on page 2. He said the undesignated fund balance is 19.5% of the general fund expenditures. He said that Lamoine has a good balance between too little and too much compared to other municipalities. He said the town has a healthy fund balance (surplus) but it is not excessive.

Mr. Wadman reviewed the depreciation expenses of \$395,396. He said that amount is booked as expense, but it's not an outflow of cash. He said that amount does come into play in the audit. He reviewed page 4 of the audit which showed an increase in the fund balance of \$158,359 (profit). Stu asked about booking some items as capital instead of maintenance. Richard said if these are called an improvement, there should be a corresponding retirement, noting a beam replacement at the Transfer Station was booked as a capital addition. Stu asked if because the item had been depreciated for several years that the repair was included as improvement. Mr. Wadman said they generally don't go through the process of valuing a replacement and explained the process they use for improvements and depreciation.

Chris asked what the depreciation schedule was. Mr. Wadman said it is different for different types of assets, and it varies from town to town. He gave some examples. He said if the municipality wanted to come up with its own estimated asset life schedule, they could do that. He said they've developed a schedule which is updated each year. He explained the balance sheet and said all the fixed assets, especially roads, are a big part of this. He explained how roads are valued and depreciated.

Mr. Wadman said page 6 of the audit shows the cost of operating the town and how the town paid for it. He said part of those expenses include the \$395,396 for depreciation. Chris asked what the transportation expense was. Mr. Wadman said \$341,000 of that was for depreciation. He said that from page 7 on, the report follows the town's budget system.

Mr. Wadman pointed out pages 14 and 15 which show the deposits and investments. He said all deposits are either collateralized or backed by insurance. He said the cash is also protected. A short discussion followed on bank insurances and other ways to protect funds.

Chris asked about the pension plan for the teachers. He asked what the liability would be if the state defaults. Mr. Wadman said it would be huge. Chris asked if it would fall upon the town. Mr. Wadman said the state retirement system is a state plan, not a municipal plan. He said it's similar to social security.

Mr. Wadman said page 20 shows the changes in fund balance and explained the calculation. He said page 22 is the schedule of reserve funds and explained those.

Jo said the fund balance the town carries is healthy at 19.5% and that appears to be a good benchmark. She said there does not seem to be a need to build that balance. Brett said the policy was for \$300,000 in the fund balance. He said that was based on the goal of having enough cash for 3-months of operations, which would be a quarter of the year. A short discussion followed on what the fund balance ought to be. Mr. Wadman said the current fund balance is not a number the town needs to build in. He said they generally look at the goal as a percentage of operations instead of a dollar figure. There was a short discussion

about the education fund balance, revenue estimates, and fund balances in general.

Mr. Wadman said the accounting records have been very good year in and year out. He said there was good cooperation from the staff. He said Lamoine is a good town to come to for field work. He said it generally takes 2-people a day and a half for the field work. He said once the school is ready, they can tie everything together and wrap up the audit. He said it was one of the more favored engagements. Jo said the town is fortunate to have the personnel who can provide the information.

Jo asked if there were any procedures that ought to be changed in terms of money handling. Mr. Wadman said it's a very small operation and it would not be cost effective to hire more people. He said the town has been good about implementing recommendations in the past. He said the state audit department has been checking towns for the past few years. He said that process appears to be coming to an end as they're running out of resources. A short discussion followed.

Jo said she's pleased to hear the town is looking good. Mr. Wadman said he hoped the Board had benefited from meeting with him. Budget Committee chair Henry Ashmore asked if the roads are considered a fixed asset. Mr. Wadman said they are. Dr. Ashmore asked if, when the roads are depreciated, does that reduce the asset value. Mr. Wadman said it does. Dr. Ashmore asked if the audit of the town includes the fire department. Mr. Wadman said it does in terms of the town's fire department budget, but does not include the separately chartered fire department organization's books. Dr. Ashmore asked if the fire trucks and building are part of the town's fixed asset listing. Mr. Wadman said they are. A short discussion followed on the fire department organization and the town assets.

Dr. Ashmore asked what level of value must be reached to count a fixed asset. Mr. Wadman said they generally use \$5,000 or whatever a town adopts. He said very few towns go lower than \$5,000.

Cynthia asked about depreciating roads. Mr. Wadman explained the process. Richard said the presentation was interesting to him. He said it was a different way than usual of looking at things.

There being no further business, the Selectmen's meeting adjourned at 7:58 PM to be followed by the Budget Committee meeting.

Respectfully submitted,

Stu Marckoon, Adm. Asst.

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